

CONNECTICUT BUDGET PROCESS

Sound Budgeting Practices

For the most part, Connecticut's budgeting procedures are viewed as average or better, and its relatively high bond ratings reflect that perspective.

Balanced budget. There has been compliance with the balanced budget requirement. At times, the balance has been short-lived and achieved through less than optimal financial management practices.

Spending controls. The governor, as required, has reduced appropriations and transferred funding, with approval by the Finance Advisory Committee (FAC) when necessary, to maintain a balanced budget. Giving the executive expanded authority for significant reductions without legislative review raises questions about the balance of control over spending policy.

Overall, the state's system for controlling the spending side of the budget appears to keep actual expenditures fairly close to authorized levels.

In recent years, it appears revenues have had more influence than expenditures on the state's budget balance.

Revenue forecasting. The legislature's current revenue forecasting process appears adequate. It includes most recommended best practices and has had at least average results in terms of accuracy.

While the underlying assumptions and methods for the revenue estimate are presented at a finance committee meeting, this occurs late in the budget process with a limited audience.

Use of surplus. Surplus funds have been used for the purposes outlined by state law. The appropriated uses of the state's surplus were made primarily for one-time purposes, consistent with recognized best financial practices. The state's use of surplus funds for on-going purposes has not been extensive but should be closely monitored.

Budget Reserve Fund. A review of the history of Connecticut's Budget Reserve Fund balances indicates the state has done fairly well in managing the fund. It is not clear whether Connecticut's newly increased 10 percent level is adequate.

1. Maintain the 10 percent maximum balance for the Budget Reserve Fund until better information is available on what level is most appropriate.

GAAP. GAAP accounting, like maintaining a healthy rainy day fund and applying unanticipated surpluses to debt retirement, is an important component of sound financial management.

2. Make funding of the GAAP system a priority for the use of any future state surpluses.

Spending cap. The spending cap has been effective in constraining the growth of the state budget.

Connecticut's cap is strict, particularly when compared to other states, but the current structure does provide flexibility when necessary.

The cap is not a perfect mechanism; the variety of ways to circumvent the cap suggests that it is, in some sense, an artificial constraint. More extensive analysis of tax expenditures and monitoring of earmarked funds should be conducted.

Federal funds. The problem of federal revenue maximization is not necessarily based on the spending cap structure. Connecticut needs to become more aggressive in exploring federal funding options.

- 3. Designate the Office of Policy and Management as the single point of contact for federal revenue maximization. OPM, within available resources, should seek outside contractors to identify maximization opportunities.**

Improved Decision Making

Budget cycle. Biennial budgeting is generally more conducive to long-term planning, can ensure funding implications will be fully documented, and provides greater opportunity for performance evaluation activities.

- 4. Retain the biennial budget cycle.**

Information needs. Revisions to the existing budget preparation process are needed to improve the type of information available to legislators and the manner of setting spending priorities.

Information about the results of state spending decisions is generally missing from Connecticut's budget process. Better decision making is possible if all legislators have a greater understanding of the interrelationships and long term impact of spending decisions.

- 5. Amend the statutes to require a joint informational meeting be held by the appropriations and finance committees each year by November 15 to consider the current and future balance of the state general budget.**

At a minimum, the Office of Fiscal Analysis should be requested to provide information on: trends in expenditures and revenues; potential deficiencies and new spending requirements; assumptions for revenue forecasting; tax expenditures; federal funding; mandatory versus discretionary funding; spending cap calculation and considerations; and possible uses for surplus funds, including but not limited to the budget reserve fund, debt retirement, and funding of pension liabilities. The Office of Policy and Management, the

comptroller, and treasurer should also be requested to provide information and participate in the informational meeting.

The OFA budget book is the most comprehensive source of information regarding adopted state budgets. There would be a serious loss to the understanding of the state's spending plan if it was not prepared.

- 6. Require by law that OFA prepare its budget book each year and make it available to the public within 60 days of final action on the current year's fiscal legislation. The book should include a concise summary and guide to key budget issues for use by the general public.**

Setting priorities. The current budget preparation process does not foster a long term perspective or a focus on priorities, the key characteristics of good budget decisions. Other states have formal mechanisms for setting spending priorities at the beginning of the legislative session.

- 7. Establish a special budget committee consisting of the majority and minority leadership of both chambers and the leadership of the appropriations and finance committees and require it to meet at least one week before the start of the regular session to: set spending targets for each major policy area based on current and prospective economic conditions; and adopt an estimate of revenue available under the existing tax structure and under any proposed modifications.**

Timely resolution . The legislature is increasingly taking longer each year to adopt a biennial budget. There are several potential negative consequences if a budget is not in place by the start of the fiscal year, including the impact on the state bond rating and the "ripple effect" on municipal budgets.

Reduced review time and the broad scope and size of implementer bills limit the ability of individual legislators and the public to understand the implications of the provisions of the bills. The current emergency certification process allows no public hearing, no review by committees of cognizance, and limited input from the rank and file.

- 8. Institute a provision requiring the budget be enacted a week before the end of the regular session. If this does not occur, all pending legislation shall die and only the budget may be considered.**
- 9. Require implementer bills be available a minimum of 72 hours prior to a vote by the first chamber to consider the bill.**

Performance measures . Performance measurement is generally agreed to be an essential component of a sound budgeting process. Information on performance is critical to setting goals, planning activities, allocating resources, and keeping agencies accountable.

The Office of Policy and Management has failed to comply with provisions enacted in 1992 that require it to develop and report on agency goals, objectives, and outcome measures. To date, the legislature has not called for any corrective action.

A way to systematize the availability and use of performance data within the legislature was outlined in an earlier program review committee report.

As part of the budget process study, the program review committee staff examined issues related to performance budgeting implementation using workforce development as a case study. Results showed the workforce development system has a well-developed performance measurement process.

10. Adopt the performance measurement system outlined in the committee's 1999 report with a starting date of 2006. The Office of Policy and Management should pilot the system with the state's workforce development program in 2005.